

Date: May 3, 2016

To: Thomas J. Bonfield, City Manager
Through: Wanda S. Page, Deputy City Manager
From: David Boyd, Finance Director
Keith Herrmann, Deputy Finance Director
Chad Cowan, Treasurer

Subject: Resolution Approving the Application to the Local Government Commission for the issuance of Water and Sewer Utility System Revenue Bonds

Executive Summary

Based on favorable interest rates, the City is in a position to advance refund certain maturities of Utility System Revenue Bonds ("Bonds") and realize positive economic savings. The Finance Department is currently pursuing refunding portions of the City's outstanding Series 2011 Bonds (the "Refunded Bonds") in the amount of \$43,405,000.00, which represents all of the callable maturities from the Series 2011 Bonds. Based on market rates, the refunding will generate approximately \$2,900,000.00 in net present value savings (NPV) or 6.70% of the Refunded Bonds. The City will continue to refine the refunding structure (i.e., identifying the best refunding candidates) up to the time of pricing.

Recommendation

The Finance Department recommends that the City Council:

1. Adopt a Resolution of the City Council of the City of Durham, North Carolina, directing the application to the Local Government Commission ("LGC") for approval of Water & Sewer Utility System Revenue Bonds and requesting that the LGC approve the refunding bonds; and,
2. Authorize the City Manager or his designee to execute other associated documents as necessary to finalize the City's application to the LGC.

Background

On May 18, 2011, the City issued Utility System Revenue Bonds, Series 2011 in the amount of \$57,465,000.00 to finance various improvements to the City's Utility System and to refund bonds issued in 2001. As of May 3, 2016, the outstanding par amount of the 2011 Bonds is \$50,315,000.00. The 2011 Bonds were sold with a call date of June 1, 2021 and any obligations maturing after that date may be refinanced. The portion of the 2011 Bonds which mature after the call date are \$43,405,000.00.

The City intends to refinance all of the callable 2011 Bonds provided that they are economically viable. Depending on interest rates at the time of sale, the City may refinance less than all of the callable 2011 Bonds outlined above.

The City's current debt management policy (FP707.01) requires NPV savings of 5.0% of the refunded bonds but allows for refundings below this threshold to be evaluated on a case-by-

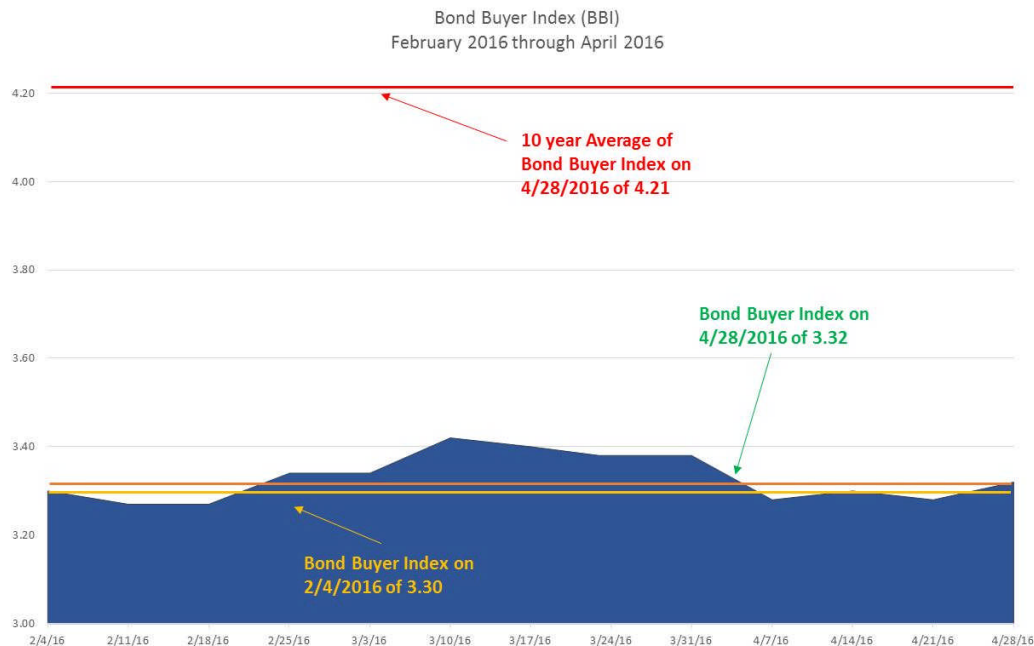
case basis. The Government Finance Officers Association (GFOA) has a “Recommended Practice” related to advance refundings that suggests a minimum refunding threshold of between 3.0% and 5.0% of the refunded bonds. The City’s threshold is at the high end of the suggested range. As previously outlined, current savings levels are significantly above the City’s target.

Issues and Analysis

Given the low level of interest rates, the City has the potential to realize annual debt service savings by refunding previously issued bonds. Following a thorough evaluation of market conditions, interest rates, and other financing related expenses, the Finance Department has determined that a negotiated bond sale, as is common practice across North Carolina on refunding transactions, will provide the City with the best overall financing results.

Current Interest Rates

Since the beginning of February, interest rates in the tax-exempt municipal bond market (and the broader bond market) have remained very low. The following chart tracks the Bond Buyer Index (“BBI”) since February. As is illustrated, the BBI has remained relatively flat over the past few months and remains well below historical averages.



Financial Impact

Refinancing the Refunded Bonds would result in decreased future debt service payments. An estimate of the savings is below.

Estimated Savings on the Refunded Bonds

	Existing Debt Service	Projected Debt Service	Estimated Savings
6/30/2017	\$2,114,850	\$1,955,813	\$159,038
6/30/2018	2,114,850	1,959,413	155,438
6/30/2019	2,114,850	1,957,913	156,938
6/30/2020	2,114,850	1,955,663	159,188
6/30/2021	2,114,850	1,958,413	156,438
6/30/2022	3,454,850	3,296,813	158,038
6/30/2023	3,456,250	3,295,813	160,438
6/30/2024	3,456,500	3,296,313	160,188
6/30/2025	3,453,250	3,293,063	160,188
6/30/2026	3,456,500	3,300,263	156,238
6/30/2027	3,455,750	3,296,263	159,488
6/30/2028	3,456,000	3,298,263	157,738
6/30/2029	3,452,000	3,295,763	156,238
6/30/2030	3,453,750	3,293,763	159,988
6/30/2031	3,455,750	3,297,013	158,738
6/30/2032	3,453,350	3,295,013	158,338
6/30/2033	3,452,750	3,292,763	159,988
6/30/2034	3,456,500	3,300,013	156,488
6/30/2035	3,454,500	3,295,613	158,888
6/30/2036	3,456,750	3,299,113	157,638
6/30/2037	3,452,750	3,293,913	158,838
6/30/2038	3,452,500	3,293,600	158,900
6/30/2039	3,455,500	3,296,000	159,500
6/30/2040	3,456,250	3,298,800	157,450
6/30/2041	3,454,500	3,296,800	157,700
Total	\$79,670,200	\$75,712,163	\$3,958,038

Additional Council Actions and Timing of Bond Sale

Following the adoption of the attached resolution, the Finance Department would move forward with the application to the LGC, development of the City's offering document (the Preliminary Official Statement or "POS") and a series of other legal documents. The Finance Department would anticipate having these documents presented to the City Council for approval at the August 1, 2016 Council meeting. Once approved, the LGC would approve the refinancing at its August 2, 2016 meeting. The sale date for the bond issue would be scheduled during August with a closing in late August or early September.

This resolution allows the Finance Department to move forward with preparations for the transaction but does not obligate the City to execute the sale.

Financing Team

The Finance Department intends to file an application with the Local Government Commission ("LGC") to sell the bonds through negotiated sale, and has retained Parker Poe Adams & Bernstein LLP and The Banks Law Firm as Co-Bond Counsel. The City's Financial Advisor, DEC, Inc has also been retained for the transaction. The Escrow Agent and Trustee will be U.S. Bank National Association.

Alternatives

The City could choose not to refinance the 2011 Bonds and there would be no savings realized.

SDBE Summary

There are no SDBE issues with regard to this item.

Attachments

Approving Resolution (4 pages)